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The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes understanding and informs decision-making. The 'core' section of the *Review* is written by members of WERU, with feature articles contributed by academics or practitioners within or outside Wales. The *Review* is circulated widely within Wales, to both private and public sector organisations, including the education sector and the National Assembly.

Notes for Contributors

Authors should send papers for potential publication in the *Welsh Economic Review* to the Editor at the address given below, preferably via e-mail in a Word for Windows format. Papers are welcome on any topic that would be of general interest to the readership, and should be written in a style suitable for non-specialist readers. Papers should be approximately 3,000-4,000 words and any graphs or figures should be accompanied by the underlying data to allow reproduction.

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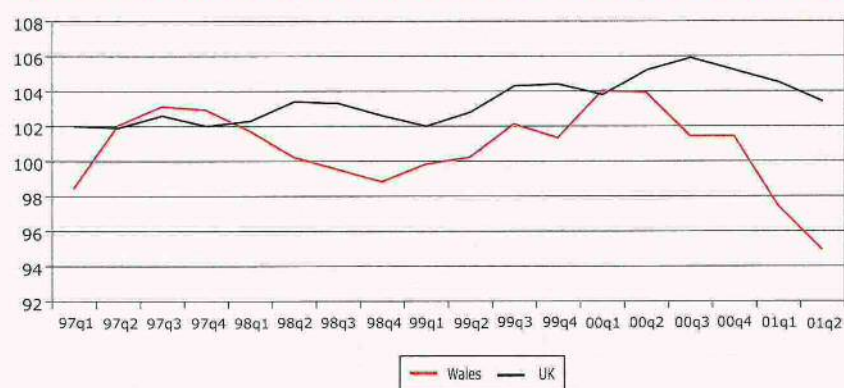
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Industrial Activity

The Index of Production for Wales is the result of collaboration between the National Assembly for Wales and the Office for National Statistics (ONS). The majority of data to make up the index comes from the ONS's Monthly Production Inquiry. The index provides a measure of movements in Welsh industrial output, and continues to be one of the ways in which the strength of the regional economy can be assessed.

Figure 5 summarises recent quarterly movements in the Welsh and UK indices of production. Since 2000Q1 the UK and Welsh indices have parted company, with production in the UK as a whole maintained at a higher level than has been the case in Wales. The Welsh index fell by 8.7% in the year to 2001Q2. More worrying has been the steep fall in the index since 2000Q4. On the present weightings one would have to go back 1994Q2 to record a lower value.

Figure 5 Index of Production, Wales and UK, 1997Q1- 2001Q2, 1995=100



Source: Index of Production and Construction, National Assembly for Wales and ONS.

Some of this poor performance can be explained by developments in the electricity, gas and water sector. The index for electricity, gas and water fell by 7.5% in the year to 2001Q2, and by around 19% since the start of 2000. Poor performance is largely down to the closure of reactors at Wylfa nuclear power station on Anglesey. However, the reactors were scheduled to come back on line during the summer, hence an improvement in the index of electricity, gas and water can be expected in the final half of this year.

Unfortunately, the other key contributor to the recent poor showing of the Welsh index will not so easily be corrected. Figure 6 shows the 'nose dive' in manufacturing during 2001. The index of Welsh manufacturing fell almost 3% between 2001Q1-2001Q2, and by almost 9% over the year to 2001Q2. Two sectors in particular contributed to the poor showing in the manufacturing index.

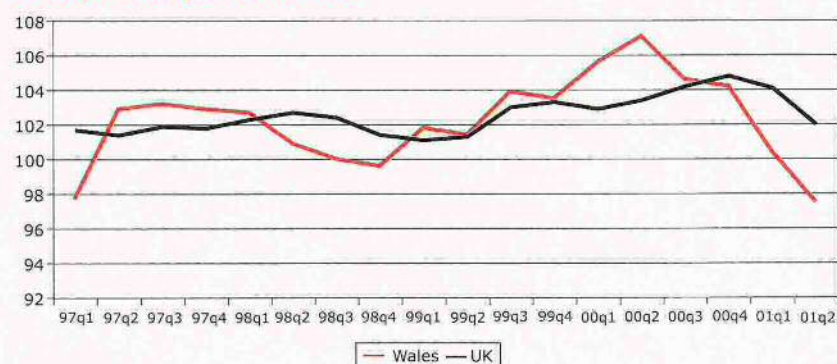
First was the basic metals and metal products sector. The index of output in this sector fell by almost 13% in the

year to 2001Q2. Reductions in output at Corus were announced in February and these are now beginning to work their way through the index. The end of steel-making at Llanwern (Newport), combined with closures at Ebbw Vale and Bryngwyn (Gorseinon), will lead to further reductions in the basic metal production index in 2001. The Corus closures are expected to have also had severe effects on suppliers and subcontractors within the basic metals sector, and in engineering (see Political Economy section of this *Welsh Economic Review* for further commentary on Corus restructuring).

Second, is the electrical and optical equipment sector. Figure 7 reveals the steep rise in the index of output for this sector after 1998Q3. The index peaks in 2000Q3, and then falls steeply. Between 2000Q2 and 2001Q2 electrical and optical industry output fell by 17%. The steep fall reflects falling employment and output in firms such as Sony, Matsushita and Hitachi in the second half of last year. There are few signs of improvement in the foreign-owned consumer or general electronics sector in Wales. The Hitachi plant at Hirwaun is now set to close completely by this December, with the loss of the remaining 170 jobs at the plant. Aiwa at Newbridge announced in June that it was ceasing production of own brand goods to contract manufacture only. This move is expected to lead to 95 more job losses at this plant, with management claiming that original equipment manufacturing was no longer viable at the site. The downturn in demand for micro-chips was blamed for 100 job losses at European Semiconductors (ESM) in Newport. Some brighter news in the sector came as a result of the MOD awarding the contract for new army radio systems to Computing Devices Canada (CDC) during July. CDC have announced that the headquarters for the new project will be Blackwood where more than 400 high technology jobs are expected to be created.

Other manufacturing sectors performing poorly in the second quarter of 2001 were machinery, engineering, and

Figure 6: Index of Manufacturing Output, Wales and UK, 1997Q1-2001Q2, 1995=100



Source: Index of Production and Construction, National Assembly for Wales and ONS.

textiles, for which sector indices fell by 10.2%, 5% and 4.4% respectively between 2001Q1 and 2001Q2.

One sector that had staged a limited recovery during 2001Q1 was transport equipment. The index of transport equipment output grew by 4.1% in the first quarter. This was surprising because much of the automotive sector remained vulnerable to overseas competition, with labour intensive elements of this sector already gaining cost savings from production in Central and Eastern Europe. The 2001Q1 recovery in transport equipment output was, as expected, short lived. During 2001Q2 the index for transport equipment fell by 3.9%. Automotive component makers announcing job losses last year included Krupp Camford Pressings and Calsonic (Llanelli), Lucas SEI (Ystragynlais) and Fenner (Maerdy). Other jobs losses have been announced at automotive component makers including KTH (automotive components – Llanidloes – 200 jobs), and Exide Batteries (Cwmbran – 45 jobs), 3M (Gorseinon – 90 jobs) and Bosal Industries (Tredegar – 153 jobs). Other elements of transport equipment are also vulnerable. General Electric at

Nantgarw which services aircraft engines announced redundancies in June of this year. Unfortunately, the aerospace sector has experienced further problems in the aftermath of the terrorist attacks in the USA. Further job losses were announced at Nantgarw in early October.

The main boost to the transport equipment sector in the second half of last year had been the news that the British Aerospace Broughton plant in North Wales had been awarded the contract to produce the wings for the new A3XX Airbus. The new project was associated with as many as 1,700 new jobs. How far recent developments in the aerospace sector will affect the progression of this investment is still uncertain.

In overall terms manufacturing job losses in Wales have far outweighed job gains in the first half of this year. Little improvement is expected. The CBI Regional Trends Survey, reporting in August, showed a fall in general business confidence in Wales, coupled with a particularly steep fall in export confidence. These findings were echoed in the second quarter economic survey

undertaken by the Cardiff Chamber of Commerce, which also reported a fall in Welsh manufacturing confidence, and an increase in the number of manufacturing companies reporting a decrease in export sales compared to the first quarter survey. National forecasting groups such as Cambridge Econometrics also expect 2001 to be a bad year for Welsh production sectors. Under these circumstances the index of Welsh production is unlikely to recover significantly during this year.

Regional Trade in Goods

According to HM Customs estimates, Welsh exports of goods increased marginally during 2000 to just over £6bn, around 70% of which were to EU countries. However imports into Wales increased more significantly, to just under £6bn, largely as a result of a rise in imports from outside the EU. The overall international trade in goods surplus thus narrowed to less than £150m, from almost £900m in 1999.

Further information on regional trade data can be found at www.uktradeinfo.com

Figure 7: Index of Welsh Electrical and Optical Equipment Output 1997Q1-2001Q2



Source: Index of Production and Construction, National Assembly for Wales and ONS.